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Bert Ely's

Farm Credit Watch

Shedding Light on the Farm Credit System, America's Least Known GSE

Lender's Choice
Is Dead!

Long Live

Lender's Choice

(April 2000)

Editor's Note: Bert Ely's Farm Credit Watch is a monthly report that is available in the "Members Only" section on the ABA Web site (www.aba.com). The following articles are the most recent installments.

To keep Journal of Agricultural Lending readers up to date on Mr. Ely's comments, we will publish all his columns that appear between publication dates. Mr. Ely welcomes information about the Farm Credit System in your area and can be reached at (703) 836-4101 or by e-mail at bert@ely-co.com.

Mike Reyna, the new chairman of the Farm Credit Administration (FCA), is moving at lightning speed to put his stamp on the Farm Credit System (FCS) through a revolutionary new national chartering program for FCS lenders.

Stripped to its essentials, national chartering is merely a minor variation of the lender's choice initiative championed by the late FCA Chairman Marsha Martin. Especially notable is the fact that Reyna and FCA board member Ann Jorgenson announced national chartering in a March 8 memorandum to FCS institutions, just 50 days after Reyna was appointed to succeed Martin.

Combined with new rules governing "cross-titling" and FCS loan participations with non-FCS lenders, national chartering will trigger unrestrained and potentially destructive competition within the FCS. Farmers, bankers, taxpayers and rural America could be the loser.

Details about the FCA's national chartering proposal are sketchy at this time. Although the FCA has not posted the March 8 memorandum on its website, important information about this audacious proposal can be found in the first article in the March 2000 issue of the FCA publication, *NewsLine* www.fca.gov/download/newsline-march2000web.pdf). This is what is known at this time:

- FCS associations will be able to apply to the FCA for a national charter that presumably will let an asso-

ciation lend anywhere it wants to within the United States. According to Reyna, the national charter "is an alternative approach to removing geographic restrictions in lieu of moving forward with the [Lender's Choice] regulation." Because that regulation generated so much opposition from within the FCS, the FCA will demolish geographical lending restrictions in a manner which will not require any new regulations.

- The FCA will develop a "streamlined charter application process that will be easy for associations to use." Translation: It will be a no-brainer for the empire builders within the FCS to apply for a national charter. According to *NewsLine*, "FCA staff is drafting details of the required information to be provided to the [FCA] on expanded charters." One would think that these "details" would have been thought through more thoroughly before announcing that there will be a streamlined charter application process. The real message to FCA staff: Don't make the application too taxing.

- All national charter applications received by a set date will become effective at the same time, supposedly around the end of this year. Shades of the Oklahoma land rush. Not only is the FCA breaking with FCS's history of exclusive geographical lending territories, but it proposes to unleash the aggressive FCS associations to lend wherever they want.

National chartering will be accompanied by two other dramatic changes in the FCS. First, "cross-titling" will permit Production Credit Associations (PCAs), the FCS's

short-term lenders, to engage in long-term ag real estate lending, while Federal Land Credit Associations (FLCAs), the FCS's direct real estate lenders, will also be able to make short-term loans. In other words, everyone will be able to do everything despite the fact that PCAs know little about real estate lending while FLCAs know little about seasonal lending.

Second, the FCA will now permit FCS lenders to participate with non-FCS lenders, such as commercial banks, in loans made anywhere in the country *without the consent of the FCS lender serving the territory where the borrower is located*. This represents another attack on the long-standing FCS policy of territorial exclusivity.

This dramatic policy shift will lead to far-reaching and troubling changes in the FCS that should concern anyone worried about rural America's economic health.

- These policy changes clearly cater to the FCS's empire builders, those FCS bank and association CEOs who want to build large, multi-billion-dollar organizations that use taxpayer-subsidized funding to cream-skim the best ag credits.

- These changes will unleash destructive competition among FCS institutions as aggressive lenders charge into other territories and into new types of lending. Many lending mistakes will be made because local ag markets differ dramatically across the country. Worse, aggressive FCS lenders will try to buy the business with even lower interest rates than they now charge. This could lead to another round of reckless lending by the FCS.

• Competition within the FCS will accelerate the pace of consolidation within the system, which shrank by 60 associations in the 1995-99 period, to 172. In 1985, there were 932 associations. Intra-system consolidation, driven by these policy changes, could easily lead to less than 50 associations within a few years. The FCS tradition of small associations controlled by local farmer-borrowers has been tossed into the ashcan of history.

Wanted: The Fingergate Culprit

According to the *Washington Post* (I am not making this up), "Fingergate" has erupted at the FCS. An unknown villain recently wrote "Marsha" (in remembrance of Marsha Martin) in dirt on the outside of the office window of successor Reyna, so that he could read it whenever he looked

outside. The FCA's Inspector General is investigating that and other incidents "that might be seen as threats to [FCA] board members." The IG "found a fingerprint on the window and small tracks, possibly female, on the balcony" outside Reyna's office. Twenty FCA staffers have since been fingerprinted. *FCW* will keep you posted as results become known. In the meantime, call in the window washers.

Wanted: Annual Reports of FCS Associations

While *FCW* has obtained the annual reports of the FCS banks, FCS associations are less forthcoming with their annual reports. *FCW* readers: please send any association annual reports you can obtain to Ely & Co., P.O. Box 21010, Alexandria, VA 22320.